

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: GRAND TRAVERSE METRO FIRE DEPARTMENT	County GRAND TRAVERSE
Audit Date DECEMBER 31, 2004	Opinion Date JUNE 30, 2005	Date Accountant Report Submitted To State: AUGUST 31, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 1010 SOUTH GARFIELD AVENUE	City TRAVERSE CITY	State MI	ZIP 49686
Accountant Signature 			

Grand Traverse Metro Fire Department

**Financial Report
with Supplemental Information
December 31, 2004**

Grand Traverse Metro Fire Department

Contents

Report Letter	I
Management's Discussion and Analysis	2-6
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	9
Statement of Revenue, Expenditures, and Changes in Fund Balances	10
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	11
Notes to Financial Statements	12-23
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	24
Budgetary Comparison Schedule – Major Public Improvement Fund	25
Note to Required Supplemental Information	26

Independent Auditor's Report

To the Board
Grand Traverse Metro Fire Department

We have audited the accompanying financial statements of the governmental activities and each major fund of the Grand Traverse Metro Fire Department (Fire Department) as of and for the year ended December 31, 2004, which collectively comprise the Fire Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fire Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Fire Department as of December 31, 2004 and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

As described in Note I, the Fire Department has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of January 1, 2004.

Plante & Moran, PLLC

June 30, 2005

A member of



A worldwide association of independent accounting firms

Grand Traverse Metro Fire Department

Management's Discussion and Analysis

Our discussion and analysis of the Grand Traverse Metro Fire Department's financial performance provides an overview of the Fire Department's financial activities for the fiscal year ended December 31, 2004. Please read it in conjunction with the Fire Department's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2004:

- Contributions from local governmental units increased by approximately \$173,000 this year. This resulted in a fund balance increase of approximately \$43,000.
- Total net assets related to the Fire Department's governmental activities increased by approximately \$313,000. The unrestricted portion of net assets increased by approximately \$319,000.
- The Fire Department began a long-term public improvement initiative by setting aside approximately \$300,000 into a new Public Improvement Fund this year.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Fire Department as a whole and present a longer-term view of the Fire Department's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Fire Department's operations in more detail than the government-wide financial statements by providing information about the Fire Department's most significant funds.

Grand Traverse Metro Fire Department

Management's Discussion and Analysis (Continued)

The Fire Department as a Whole

The following table shows, in a condensed format, the net assets as of December 31, 2004. In future years, when prior year information is available, comparable data will be presented.

	Governmental Activities 2004
Current assets	\$ 752,577
Noncurrent assets	2,446,734
Total assets	3,199,311
Current liabilities	35,110
Long-term liabilities	38,387
Total liabilities	73,497
Net assets:	
Invested in capital assets - Net of related debt	\$ 2,419,913
Unrestricted	705,901
Total net assets	<u>\$ 3,125,814</u>

The Fire Department's combined net assets increased 11.1 percent from a year ago—increasing from \$2,812,347 to \$3,125,814.

Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations—increased by \$318,783. This represents an increase of approximately 82.3 percent. The current level of unrestricted net assets stands at \$705,901, or about 47.5 percent of expenditures. This is within the targeted range set by the Fire Department Board during its last budget process.

Grand Traverse Metro Fire Department

Management's Discussion and Analysis (Continued)

The Fire Department as a Whole (Continued)

The following table shows, in a condensed format, the net assets as of December 31, 2004. In future years, when prior year information is available, comparable data will be presented.

	Governmental Activities 2004
Revenue	
Program revenue:	
Charges for services	\$ 171,178
General revenue:	
Contribution from local governments	1,607,498
Unrestricted investment earnings	6,670
Other revenue	14,904
Total revenue	1,800,250
Program Expenses	
Public safety	
Personnel	832,726
Commodities	81,284
Contractual services	31,670
Depreciation expense	235,250
Other charges	305,853
Capital outlay - noncapitalizable	-
Total program expenses	1,486,783
Change in Net Assets	\$ 313,467

Governmental Activities

The Fire Department's total governmental revenues increased by approximately \$213,000. The increase, which represents 13.4 percent, was primarily due to the continuing increases in all revenue areas, including contributions from local governments, building permits, and interest income.

Expenses decreased by about \$600,000 during the year, despite an increase in personnel costs. Decreases were primarily due to less capital purchases in the current year versus the prior year.

Grand Traverse Metro Fire Department

Management's Discussion and Analysis (Continued)

The Fire Department's Funds

Our analysis of the Fire Department's major funds begins on page 9, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Fire Department as a whole. The Fire Department Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as contributions from local governments based on their special tax millages. The Fire Department's major funds for 2004 include the General Fund and the Public Improvement Fund.

The General Fund pays for most of the Fire Department's governmental services. The most significant are fire personnel, which incurred expenses of approximately \$813,000 in 2004.

The Public Improvement Fund records funds designated by the Board and transferred from the General Fund. The amount transferred from the General Fund is supported by a capital improvement plan, including specific capital outlay approved by the Fire Department Board. During the current year, this amounted to \$300,000.

General Fund Budgetary Highlights

Over the course of the year, the Fire Department made budget amendments to line items within cost centers. No cost center budget totals changed and no line item within cost centers changed by more than \$5,000. Cost centers overall stayed below budget, with the exception of an unplanned transfer to create the Public Improvement Fund resulting in total expenditures \$75,107 over budget. This allowed the General Fund's fund balance to increase from \$374,754 a year ago to \$417,467 at December 31, 2004. The Public Improvement Fund was created to hold fund balance transfers for land, buildings, and equipment. A transfer of \$300,000 from the General Fund balance was transferred to this account.

Capital Asset

At the end of 2004, the Fire Department had \$2,419,913 invested in a broad range of capital assets, including buildings, furnishings, fire equipment, and vehicles. In March 2004, the Fire Department completed an office expansion which added much needed office and storage space. In order to implement the Fire Department's strategic plan, the Board plans to continue capital spending in 2005.

Grand Traverse Metro Fire Department

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets

The 2005 calendar year brings with it new challenges for the Fire Department.

The November township elections resulted in two new members on our Board. Both of the new Board members were also new to their jobs as supervisors to the participating townships. As a result, some time will be needed to familiarize these two new supervisors in the operations of the Fire Department.

The Fire Department is embarking on an ambitious strategic plan. The plan calls for three new stations to be built in the next ten years. Fire apparatus will need to be purchased and housed in these stations. Full time staffing at each of our stations will be required in the near future. The implementation of this plan will necessitate much discussion on the financing of this expansion. The Fire Department's budget for next year calls for an increase of contributions from local governments.

Contacting the Fire Department's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Fire Department's finances and to show the Fire Department's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Fire Department Office.

Grand Traverse Metro Fire Department

Statement of Net Assets December 31, 2004

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 698,817
Receivables - Net (Note 4)	42,345
Prepaid costs	11,415
Investment in joint venture (Note 10)	26,821
Capital assets - Net (Note 5)	
Depreciable assets	2,237,153
Non-depreciable assets	<u>182,760</u>
Total assets	3,199,311
Liabilities	
Accounts payable	28,447
Accrued and other liabilities	6,663
Compensated absences	<u>38,387</u>
Total liabilities	<u>73,497</u>
Net Assets	
Invested in capital assets - Net of related debt	2,419,913
Unrestricted	<u>705,901</u>
Total net assets	<u><u>\$ 3,125,814</u></u>

Grand Traverse Metro Fire Department

Statement of Activities Year Ended December 31, 2004

		Program Revenues	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Governmental Activities
Functions/Programs			
Primary government:			
Governmental activities:			
Public safety			
Personnel	\$ 832,726	\$ 164,698	\$ (668,028)
Commodities	81,284	-	(81,284)
Contractual services	31,670	-	(31,670)
Depreciation expense	235,250	-	(235,250)
Other charges	305,853	6,480	(299,373)
Total primary government	<u>\$ 1,486,783</u>	<u>\$ 171,178</u>	<u>\$ (1,315,605)</u>
General revenues:			
Contribution from local governmental units			\$ 1,607,498
Unrestricted investment earnings			6,670
Miscellaneous			14,904
Total general revenues			<u>1,629,072</u>
Change in Net Assets			313,467
Net Assets - Beginning of year			<u>2,812,347</u>
Net Assets - End of year			<u><u>\$ 3,125,814</u></u>

Grand Traverse Metro Fire Department

Governmental Funds Balance Sheet December 31, 2004

	General	Public Improvement	Total Governmental Funds
Assets			
Cash and investments	\$ 398,817	\$ 300,000	\$ 698,817
Receivables - Net	42,345	-	42,345
Prepaid costs	11,415	-	11,415
Total assets	<u>\$ 452,577</u>	<u>\$ 300,000</u>	<u>\$ 752,577</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 28,447	\$ -	\$ 28,447
Accrued and other liabilities	6,663	-	6,663
Total liabilities	35,110	-	35,110
Fund Balances			
Unreserved, reported in:			
General Fund	417,467	-	417,467
Special Revenue Funds	-	300,000	300,000
Total fund balances	417,467	300,000	717,467
Total liabilities and fund balances	<u>\$ 452,577</u>	<u>\$ 300,000</u>	<u>\$ 752,577</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Investment in joint venture used in governmental activities that is not financial resources and is not reported in the funds	26,821
Capital assets used in governmental activities are not financial resources and are not reported in the funds	2,419,913
Long-term liabilities are not due and payable in the current period and are not the funds	(38,387)
Net assets of governmental activities	<u>\$ 3,125,814</u>

Grand Traverse Metro Fire Department

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2004

	General	Public Improvement	Total Governmental Funds
Revenue			
Contribution from local governmental units	\$ 1,607,498	\$ -	\$ 1,607,498
Licenses and permits	31,332	-	31,332
Interest and rentals	13,150	-	13,150
Other	148,270	-	148,270
Total revenue	1,800,250	-	1,800,250
Expenditures			
Current:			
Public safety			
Personnel	812,785	-	812,785
Commodities	81,284	-	81,284
Contractual services	31,670	-	31,670
Other charges	250,224	-	250,224
Capital outlay/repairs	281,574	-	281,574
Total expenditures	1,457,537	-	1,457,537
Excess of Revenue Over Expenditures	342,713	-	342,713
Other Financing Sources (Uses)			
Transfers in	-	300,000	300,000
Transfers out	(300,000)	-	(300,000)
Net Change in Fund Balances	42,713	300,000	342,713
Fund Balances - Beginning of year	374,754	-	374,754
Fund Balances - End of year	<u>\$ 417,467</u>	<u>\$ 300,000</u>	<u>\$ 717,467</u>

Grand Traverse Metro Fire Department

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2004

Net Change in Fund Balances - Total Governmental Funds \$ 342,713

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation:

Current year capital additions	229,934
Current year allocation of depreciation expense	(235,250)

Investment in joint venture income reported in the statement of activities does not provide current financial resources and is not reported as revenue in the governmental funds	(3,989)
--	---------

Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	(19,941)
--	----------

Change in Net Assets of Governmental Activities \$ 313,467

Grand Traverse Metro Fire Department

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Grand Traverse Metro Fire Department (Fire Department) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Fire Department.

Reporting Entity

The Fire Department is governed by an appointed three-member board. The accompanying financial statements represent the activities of the Fire Department.

The Fire Department is a joint venture between Acme, East Bay and Garfield Townships. The Fire Department's operating expenses are subsidized annually by millages levied in each Township.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Township subsidies and other items not properly included among program revenues are reported instead as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Grand Traverse Metro Fire Department

**Notes to Financial Statements
December 31, 2004**

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fire Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: contributions from local governmental units, plan reviews, and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

The Fire Department reports the following major governmental funds:

General Fund - The General Fund is the Fire Department's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Public Improvement Fund - The Public Improvement Fund is where the Fire Department has appropriated funds for future capital outlay to improve and expand the Fire Department.

Grand Traverse Metro Fire Department

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include charges for plan reviews and inspections of related buildings. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all contributions from local governmental units.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables - All trade and intergovernmental receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include buildings, furnishings, fire equipment and vehicles, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the Fire Department as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Grand Traverse Metro Fire Department

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	7 to 50 years
Vehicles	5 to 15 years
Office furnishings	5 to 12 years
Other tools and equipment	5 to 10 years

Compensated Absences (Vacation and Personal Days) - It is the Fire Department's policy to permit employees to accumulate earned but unused vacation pay and personal days benefits. Both vacation pay and personal days are accrued when incurred in the government-wide fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. During 2004, the net change was \$19,941.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Grand Traverse Metro Fire Department

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Accounting and Reporting Changes

GASB No. 34 - In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Fire Department has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Fire Department has elected to implement both the general provisions of the statement. Certain significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Fire Department's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Fire Department's activities.
- A change in the fund financial statements to focus on the major funds.
- Capital assets at January 1, 2004, previously reported in the General Fixed Assets Account Group, have been adjusted by approximately \$934,000 to reflect the historical cost of the Fire Department's capital assets at that date.
- Accumulated depreciation at January 1, 2004, previously unrecorded in the General Fixed Assets Account Group has been adjusted by approximately \$1,635,000 to reflect the historical cost of the Fire Department's capital assets at that date.
- The Fire Department's equity interest in the Grand Traverse County Fire Administrative Board joint venture was recorded as an investment of approximately \$23,000.

Grand Traverse Metro Fire Department

Notes to Financial Statements December 31, 2004

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Fire Department oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Fire Department charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2004 is as follows:

Accumulated balance at January 1, 2004	\$ -
Current year building permit revenue	31,332
Related expenses - direct costs	<u>(31,332)</u>
Accumulated balance at December 31, 2004	<u><u>\$ -</u></u>

Grand Traverse Metro Fire Department

Notes to Financial Statements December 31, 2004

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Fire Department has designated four banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The Grand Traverse Metro Fire Department's deposits and investment policies are in accordance with statutory authority.

The breakdown between deposits and investments for the Fire Department is as follows:

	Primary Government
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 493,670
Investments in mutual funds	205,042
Petty cash or cash on hand	105
Total	<u>\$ 698,817</u>

Deposits

The bank balance of the Fire Department's deposits is \$504,436, of which \$500,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Fire Department believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Fire Department evaluated each financial institution with which it deposits Fire Department funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Grand Traverse Metro Fire Department

Notes to Financial Statements December 31, 2004

Note 3 - Deposits and Investments

Investments

The Fire Department's investments during the year consisted solely of money market funds. Investments are normally categorized to give an indication of the level of risk assumed by the Fire Department; however, these funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Fire Department believes that the investments in these funds comply with the investment authority noted above.

Note 4 - Receivables

Receivables as of year end for the Fire Department's individual major funds are as follows:

	General Fund
Receivables:	
Accounts	\$ 3,400
Intergovernmental	38,945
	<hr/>
Net receivables	<u>\$ 42,345</u>

Grand Traverse Metro Fire Department

Notes to Financial Statements December 31, 2004

Note 5 - Capital Assets

Capital asset activity of the Fire Department's governmental activities was as follows:

	Balance January 1, 2004	Reclassifications	Additions	Disposals and Adjustments	Balance December 31, 2004
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 182,760	\$ -	\$ -	\$ -	\$ 182,760
Construction in progress	95,987	(95,987)	-	-	-
Subtotal	278,747	(95,987)	-	-	182,760
Buildings and improvements	555,270	95,987	163,816	-	815,073
Vehicles	2,833,746	-	35,600	28,500	2,840,846
Office furnishings	25,207	-	19,918	-	45,125
Other tools and equipment	367,144	-	10,600	-	377,744
Subtotal	3,781,367	95,987	229,934	28,500	4,078,788
Accumulated depreciation:					
Buildings and improvements	122,160	-	17,796	-	139,956
Vehicles	1,369,159	-	173,905	28,500	1,514,564
Office furnishings	20,685	-	5,013	-	25,698
Other tools and equipment	122,881	-	38,536	-	161,417
Subtotal	1,634,885	-	235,250	28,500	1,841,635
Net capital assets being depreciated	2,146,482	95,987	(5,316)	-	2,237,153
Net capital assets	<u>\$ 2,425,229</u>	<u>\$ -</u>	<u>\$ (5,316)</u>	<u>\$ -</u>	<u>\$ 2,419,913</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities - Public safety \$ 235,250

Grand Traverse Metro Fire Department

Notes to Financial Statements December 31, 2004

Note 6 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Public Improvement Fund	\$ 300,000

The transfers from the General Fund to the Public Improvement Fund represents the movement of resources to be used to finance future public improvements.

Note 7 - Risk Management

The Fire Department is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Fire Department has purchased commercial insurance for employee injuries and medical benefits, and participates in the Michigan Township Participating Plan for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Township Participating Plan program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Plan that the Plan uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Fire Department.

Grand Traverse Metro Fire Department

Notes to Financial Statements December 31, 2004

Note 8 - Defined Contribution Pension Plans

The Fire Department provides pension benefits to all of its full-time employees and the part-time fire coordinator through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the Fire Department, the Fire Department contributes 13.5 percent of the full-time employees' gross earnings. Employee contributions for each employee plus interest allocated to the employee's account are fully vested upon early retirement, termination of service, death, disability or normal retirement.

The Fire Department's total payroll during the current year was \$785,470. The current year contribution was calculated based on covered payroll of \$518,622, resulting in an employer contribution of \$65,692 and employee contributions of \$29,858.

The Fire Department also offers a deferred compensation plan created in accordance with the Internal Revenue Code Section 457 to all employees. The plan is administrated by ING Life Insurance and Annuity Company. The plan allows employees to defer a portion of their salary until the employees' death, termination, retirement or disability. During December 31, 2004, employees contributed \$12,863.

Note 9 - Other Post-employment Benefits

The Fire Department has elected to provide post-employment health benefits to certain retirees and their beneficiaries. The Fire Department pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the Fire Department's group rates. Currently, no retirees are eligible for post-employment health benefits. The Fire Department obtains health care coverage through private insurers.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended December 31, 2009.

Grand Traverse Metro Fire Department

Notes to Financial Statements December 31, 2004

Note 10 - Joint Venture

The Fire Department entered into an agreement, creating the Grand Traverse County Fire Administrative Board, effective January 1, 1981 and continued on a year to year basis by mutual agreement with Grand Traverse County and Grand Traverse Rural Fire Department in order to administer and maintain the Grand Traverse County Fire Department. The Fire Department's equity interest is 32.1% at December 31, 2004. This equity interest is adjusted annually and the 2004 equity interest balance is \$26,821.

The Fire Department also provides payroll processing services for the joint venture. At December 31, 2004, there were no amounts due from the joint venture.

Note 11 - Subsequent Event

Subsequent to December 31, 2004, a legal suit was filed against the Fire Department. The Fire Department has liability insurance coverage for up to \$5 million. A preliminary trial is set for May 2006. A range for a potential liability has not yet been determined.

Required Supplemental Information

Grand Traverse Metro Fire Department

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 374,754	\$ 374,754	\$ 374,754	\$ -
Resources (Inflows)				
Contribution from local governmental units	1,607,497	1,607,498	1,607,498	-
Fees and permits	-	-	31,332	31,332
Interest income	-	-	6,670	6,670
Rental income	6,480	6,480	6,480	-
Other	168,452	168,452	148,270	(20,182)
Amounts available for appropriation	1,782,429	1,782,430	1,800,250	17,820
Charges to Appropriations (Outflows)				
Public safety				
Personnel	897,320	897,320	812,785	(84,535)
Commodities	72,900	79,900	81,284	1,384
Contractual services	32,400	32,400	31,670	(730)
Other charges	304,252	304,252	250,224	(54,028)
Contingency	25,608	18,608	-	(18,608)
Emergency contribution fund	200	200	-	(200)
Capital outlay/repairs	649,750	349,750	281,574	(68,176)
Transfers to other funds	-	-	300,000	300,000
Total charges to appropriations	1,982,430	1,682,430	1,757,537	75,107
Fund Balance - End of year	\$ 174,753	\$ 474,754	\$ 417,467	\$ (57,287)

Grand Traverse Metro Fire Department

Required Supplemental Information Budgetary Comparison Schedule Major Public Improvement Fund Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows)				
Transfer from other funds	-	-	300,000	300,000
Amounts available for appropriation	-	-	300,000	300,000
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 300,000</u>	<u>\$ 300,000</u>

Grand Traverse Metro Fire Department

Note to Required Supplemental Information Year Ended December 31, 2004

Note - Budgetary Information

Budgetary Information - The annual budget is prepared by management and adopted by the Fire Department Board; subsequent amendments are approved by the Fire Department Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund. Budgets were adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget as adopted by the Fire Department Board is included in the required supplemental information.

There were no significant expenditure budget overruns for the year ended December 31, 2004.

June 30, 2005

To the Fire Department Board
Grand Traverse Metro Fire Department

In planning and performing our audit of the financial statements of Grand Traverse Metro Fire Department (Fire Department) for the year ended December 31, 2004, we considered the Fire Department's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Fire Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Cash Receipt Process - During 2004, the bookkeeper prepared the cash receipt deposit, posted cash receipts to the general ledger, and reconciled the bank statement. A receipt book was maintained by the secretary beginning in July 2004 for all cash receipts. Due to the bookkeeper having control over the entire process for cash receipts, there is a lack of segregation of duties. We were able to confirm almost all the revenue and performed analytical procedures on the remaining balances. We found no material variances. However, a change in this process is required in order to protect both the accountant and the assets of the Fire Department. We recommend that the secretary perform one of the steps in the process.

Bank Reconciliations - During 2004, there were no formal bank reconciliations prepared. Bank reconciliations are required to be performed timely and reviewed to give accurate information to the Board. We recommend that a formal bank reconciliation process be instituted to show the reconciliation between bank and general ledger balances for all primary accounts. In addition, these reconciliations should be initialed and dated by both the preparer and a reviewer in order to document the process.

General Ledger - We found that the general ledger was maintained manually in 2004. This can be a fully functional process; however, we had difficulty tracing transactions (expenditures) into the general ledger detail due to the use of a "disbursement" subledger that only contained total amounts for a month for each expenditure account. There was no combining/reconciling detail listing of checks issued (which should include check number, vendor name, and amount). We recommend the Fire Department move to an electronic general ledger format in order to produce the supporting ledgers and reconciliations to maintain adequate recordkeeping.

Journal Entries - In 2004, manual journal entries were used to make adjustments to the manual general ledger. A general journal listing all journal entries and their purpose was not maintained. In addition, there was no review procedure in place to verify if the journal entries were appropriate and recorded correctly. We recommend that journal entry detail be maintained to support adjustments to the general ledger. The use of a computerized general ledger will track and report all journal entries.

Wire Transfers - During 2004, we noted no approval process for wire transfers completed by the bookkeeper. In addition, we did not note a board resolution approving wire transfers. We found that the bookkeeper would go to the bank and transfer the funds through a withdrawal and deposit. In 2005, we found that the accountant manually called the bank to transfer cash to cover cash disbursements and payroll checks from the savings account to the checking account a number of times a month. This indicates a weakness in controls over Fire Department funds. Multiple transfers can also be time consuming by requiring additional tracking of cash balances in order to maintain adequate cash to cover checks. We recommend the Fire Department explore the option to set up sweep accounts, where cash is housed in a savings account to earn a higher interest rate and then, as checks clear, the amount of cash will sweep out of savings into checking to cover the check automatically. This will save the accountant time and potentially earn more interest.

A wire transfer review process should be instituted to protect the Fire Department's funds. This process should include board approval, similar to the approval of disbursements by check. The board should approve the bank accounts that are approved for transfers, who is allowed to make them, who is to review them, etc.

Personal Leave and Vacation Days - There is a lack of documentation for beginning balances, as of December 31, 2003, of personal leave and vacation days. Employees, in effect, kept track of their own paid time off. In 2005, the Fire Department is using a payroll processing company that will automatically track vacation accruals. The Fire Department is also implementing a database for accrued vacation that will track the information they receive from the payroll processing service. We recommend having the employee in charge of payroll keep track of vacation and personal days on a perpetual basis and annually check this against what employees are tracking on their own.

Assigned Fire Staff - Garfield and Acme Townships have chosen to have specific part-time fire staff assigned to them. The Fire Department schedules these staff, writes the payroll and considers them employees. The townships reimburse the Fire Department for the payroll costs. During 2004, the two townships were treated differently. Garfield Township transactions were recorded in the income statement (showing revenue and expense) and Acme Township utilized a balance sheet account to show the inflows and outflows of cash. Acme Township's activity was adjusted to be recorded as revenue and expense. The net impact is \$0 to fund balance due to the expense being 100 percent reimbursed; however, accounting principles require that both the revenue and expense be reported gross. Due to these staff being considered employees of the Fire Department and utilized in the operations of the Fire Department, both townships' employees should be shown as expense on the Fire Department's books. The reimbursement should then be considered revenue.

Payroll - During testing of payroll controls, we found that the procedure in place is to have either the Chief or Deputy Chief review the payroll edit report prior to payroll checks being run. We did not note a sign-off or any documentation that this is being performed. Due to the extent of procedures performed by the bookkeeper (processing the payroll, printing payroll checks, signing payroll checks), the review process is critical. We did note that the payroll checks had to be signed by a board member. We recommend that the review process of the payroll edit report be documented with an initial and date by the Chief or Deputy Chief.

Cash Disbursements - During testing of cash disbursements, we noted that check #8014 to West Shore Fire Repair, Inc for \$4,710 was dated July 22, 2004 based on review of the yellow copy attached to the invoices. Upon tracing the check to the bank statement, we found that the check cleared on June 25, 2004, before the check was written. Upon further review of checks issued in June 2004, it appears all were issued with an incorrect date. The appropriate expenditures were included in the financial statements as of December 31, 2004. We recommend that the date be noted when printed and reviewed before signing.

Billing Invoices - In 2004, the bookkeeper did not maintain copies of the billing invoices sent to the participating townships (East Bay, Acme, and Garfield) or record receivables to track unpaid balances. There was no support for the revenue amounts billed. We recommend that internal copies of the billing invoices are maintained for the Fire Department's records, including the calculation for each Township's fee, and that a receivable be recorded to track payment.

Multiple Entity Clarification - During review of the board minutes we found a reference made to a lawsuit. This lawsuit related to the Grand Traverse Rural Fire Department and was incorrectly included in the Grand Traverse Metro Fire Department's board minutes. There was some confusion as to the separate entities: Grand Traverse Metro Fire Department, the Grand Traverse Rural Fire Department, and the Grand Traverse Fire Department – Administrative Division. It was difficult to understand the differences, activities between the entities, etc. We recommend changing letterhead to make the difference more pronounced and make an effort to separate the entities in the board meetings and minutes.

Board Minutes - The board minutes show a dollar amount of claims (cash disbursements), however, it does not list the check numbers approved. We recommend the board minutes include the actual check numbers that are approved at each meeting.

Cancelled Checks - We noted that Fifth Third Bank returns the cancelled checks with the bank statement. We recommend that the Fire Department request the micro-mini cancelled check copies instead of the actual cancelled checks.

Network Passwords - These passwords are not required to be changed regularly and consist of a portion of the employee's social security number. This could create an opportunity for changes to be made in the system, especially with the implementation of wireless. We recommend that the system be set up to require network passwords be changed regularly (quarterly or monthly) in order to limit opportunity for a breach in the system.

Website - The Fire Department's website does not have all the useful information that it could. We suggest adding all board meeting minutes to the website so that constituents can more easily observe the Fire Department activities.

New Pronouncement - The Governmental Accounting Standards Board (GASB) has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level. Therefore, the manner in which retiree health care benefits are budgeted will not change, unless you begin funding the benefits (however, as discussed below, there are incentives to do so).

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government wide statement of net assets. Because you have less than 100 participants, the rules allow the Fire Department to perform its own calculations without an actuary; however, you may still choose to utilize the expertise of an actuary to perform the calculations.

This statement is being phased in over a three year period, similar to GASB 34. It is effective for fiscal years beginning after December 15, 2006, 2007 or 2008 depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. Therefore, funding the contribution will actually reduce your long run cost.

This report is intended solely for the information and use of the Fire Department Board, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

PLANTE & MORAN, PLLC

A handwritten signature in cursive script that reads "Sharon L. Vargo".

Sharon Vargo, CPA
Partner

Enclosure

C: Wayne Hanna, Chief
Patrick Parker, Deputy Chief